

Bank of Saipan Report

- c. Demonstrate superior professional management competence by outstanding performance on a continuing basis.
- d. Encourage and reward innovative and creative achievements.
- e. Create a stimulating and challenging work environment that encourages, develops and rewards excellence.
- f. Create and deliver quality financial products and services which represent exceptional value to the **Bank of Saipan's** customers.

3. **Financial**

- a. Extend the horizon of planning beyond one calendar year so that capital can be managed to ensure safety and soundness and proper utilization of shareholders' equity and so that discretionary expenditures and revenues can be controlled to promote a pattern of stable, sustained earnings.
- b. Mindfully allocate capital to select assets and establish suitable controls to preclude the pursuit of marginal business.
- c. Maintain accurate and timely reporting systems to measure assets, liabilities, income, expenses and related interest income risk.
- d. Gear expansion programs towards acquiring quality customer relationships that will generate fee-based income and desirable earning assets.
- e. Maintain a continuing program to insure that existing services are properly priced to produce optimum margins.

4. **Marketing and Sales**

- a. Identify in an informed and strategic manner, the desired customer base.
- b. Identify and prioritize specific current and future financial service needs of desired customer and customer prospect segments.
- c. Offer financial products and services with superior needs-satisfying benefits which respond profitably to customer and prospect needs and which positively differentiate the **Bank of Saipan** from its competitors.
- d. Promote and deliver the product and services benefits effectively and efficiently to the market segments targeted.

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- e. Protect and enhance existing customer relationships.
- f. Develop **Bank of Saipan** employees into a strategically focused, competitive, disciplined, and professional sales force, committed to the **Bank of Saipan's** mission, vision, cultural values, financial objectives, and customer satisfaction strategies.

5. Lending

- a. Establish and regularly reevaluate relevant and comprehensive loan policies, including portfolio concentration risk, reserve adequacy and approval authority issues, to facilitate the **Bank of Saipan's** ability to operate successfully and to meet objectives.
- b. Assure strong loan portfolio quality and minimal credit loss performance through targeting desirable quality market segments, strategic focus, recruitment, screening and hiring standards, performance accountability, training, comprehensive credit analysis, and an approval process that does not allow anyone to dominate the decision-making, intimidate other committee members or violate sound banking practice or bank policy, yet which responds responsibly to borrower needs.
- c. Regularly monitor loan portfolio quality and compliance with bank policy by implementing an outsourced professional loan review system.
- d. Ascertain and meet the credit needs of the communities in which the **Bank of Saipan** operates.
- e. Retain a qualified loan and credit professional to conduct credit and loan documentation seminars for all bank employees who are involved in the extension and/or collection of loans.
- f. Establish loan to one borrower guidelines and "insider" and related party procedures consistent with banking industry standards.
- g. Require borrowers to have a depository account relationship with the Bank of Saipan.

6. Loan Pricing

The **Bank of Saipan's** business and professional borrowers will be provided unsecured and secured loans generally priced at the **Bank of Saipan's** prime/reference rate, plus an appropriate percent, on a variable basis. It is anticipated that the **Bank of Saipan's** prime/reference rate will compare to most of the area banks' prime rate. Separate indexes will be maintained for commercial and real estate loans in order to provide asset/liability management flexibility. Exceptions to this loan value pricing policy can be made at the discretion of the **Bank of Saipan** for the following reasons:

- Loans that require a fixed rate of interest;
- Loans with a maturity in excess of one year;
- Construction and real estate mortgage loans;
- Accounts receivable and inventory loans requiring external audits and formal administration; and
- Borrowers without a **Bank of Saipan** primary banking relationship.

The benefits of prime rate marketing strategy are that business development will be focused on customer needs and benefits of doing business with the **Bank of Saipan** and negotiations will be less stressful when the fairness of loan pricing is eliminated from consideration.

The **Bank of Saipan's** consumer borrowers will be provided with competitively priced products that will be predominately fixed rate such as automobile loans and real estate loans. Home improvement and equity secured lines of credit are anticipated to be priced at the **Bank of Saipan's** prime/reference rate plus one to two percent on a variable basis.

7 Investments

- a. Initially, the investment policy of the **Bank of Saipan** will emphasize principally government and government agency issues having a maturity not to exceed one year. While this policy may sacrifice some incremental interest earnings, it is more important to maintain bank liquidity to ensure its ability to respond to customer deposit requirements. Further, it will take some time for the **Bank of Saipan's** deposit base to stabilize so that the **Bank of Saipan** management can anticipate swings in the deposit base. As part of the **Bank of Saipan's** asset/liability management program, liquidity lines of credit involving the sale and/or participation out of loans will be negotiated with one or more correspondent banks.
- b. Establish and regularly reevaluate comprehensive investment policies, including portfolio concentration risk, portfolio and issue quality, maturity and liquidity guidelines and approval authority, to facilitate the **Bank of Saipan's** ability to operate successfully and to meet objectives.

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- c. Identify investment opportunities with the best relative yields, although always consistent with the **Bank of Saipan's** investment policy.
- d. Regularly monitor investment portfolio quality and compliance with the **Bank of Saipan's** policy through Board of Director oversight.
- e. Ascertain investment opportunities within the communities in which the **Bank of Saipan** operates.

8. Administration

- a. Establish a process of strategic management and planning that integrates strategy development and implementation in financial performance optimization, leadership, corporate culture and market positioning.
- b. Encourage and support the active participation of all levels of **Bank of Saipan** in achieving the Bank's objectives through communication, accountability, and monetary rewards.
- c. Maintain and communicate proper operating policies and procedures that support the **Bank of Saipan's** strategic priorities and promote desired results.

9. Human Resources

- a. Establish a corporate culture supportive of the **Bank of Saipan's** objectives through leadership, vision and commitment.
- b. Develop enthusiastic employees who are focused on and committed to the strategic initiatives necessary for superior performance and who are accountable for results.
- c. Promote attitudes and behaviors which not only create value for shareholders, but also create value for the customers, for the workforce and for the community.
- d. Maintain an environment where employees trust and respect their supervisors through strong and positive leadership and management training.

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- e. Design an organizational structure that is sales and marketing oriented, creative and adaptive, and flexible enough to redirect organizational resources to meet emerging challenges and opportunities.
- f. Initiate a loan training program that focuses on credit fundamentals and loan documentation.
- g. Establish a competitive salary program and reward and recognition systems that are based on performance and contribution to the **Bank of Saipan's** goals and objectives.
- h. Reinforce commitment to customers and employees through quality and strategically relevant training programs.
- i. Develop a human resource management and development system addressing strategic human resource planning, recruitment, screening and hiring, orientation, training, performance expectations, performance review and consequences.
- j. Administer a policy of equal employment opportunity.

10. **Corporate Social Responsibility**

- a. Develop a community reinvestment policy that addresses how the **Bank of Saipan** will ascertain and meet local credit needs targeted to low and moderate-income customers and its other commitments to community development.
- b. Advance economic development in the CNMI through the Bank's direct and indirect lending programs including participation in Small Business Administration guaranteed loan programs, local community development agencies pooled-lending programs and other programs that create opportunities for local businesses and jobs for local area residents and serve as a source of financing for projects that are unable to attract conventional financing.
- c. Leverage personal initiative through programs that encourage employee participation in community-based organizations.

11. **Asset/Liability Management**

The **Bank of Saipan's** Board of Directors will establish policies for the asset/liability management of the **Bank of Saipan** that will focus on liquidity and avoid long term investment lock-ins. Adherence to these policies will be monitored by the Board's regular

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review of the **Bank of Saipan's** performance. It is the Board's intention to establish asset/liability mix standards that will be consistent with established banking industry practice.

12. Marketing Strategies

The Bank's Board of Directors has determined that the Bank Service Area will be exceedingly responsive to, and interested in, establishing relationships with a financial services organization dedicated to delivery of well-conceived products and services by personnel of the highest caliber who represent management of the **Bank of Saipan**. Implementation of the Plan and achievement of the balance sheet and earnings projections will require a diligent and consistent marketing effort on the part of all those committed to the success of the **Bank of Saipan**. Subject to oversight by the Receiver, those involved in this endeavor include:

- The Board of Directors;
- Officers and employees;
- Advisory Board;
- Depositors;
- Shareholders; and
- Customers.

The Directors and Shareholder Group, by their service on the Board and substantial financial commitment in the form of the purchase of stock, clearly evidence a commitment to achieving the ultimate success of this organization. Their varied and successful careers, practical experience, and managerial skills will not only contribute to the establishment of well-founded policies and objectives and the prudent administration of **Bank of Saipan** resources, but also to the active marketing of **Bank of Saipan's** products and services to the business community. The Directors recognize fully their responsibility to actively support all business development and public relations endeavors. They represent spheres of influence with their friends, associates and business colleagues, which in turn equates to prospects and clientele for the **Bank of Saipan**.

The **Bank of Saipan** officers will be hired based not only upon their proven knowledge of the banking industry but also their demonstrated skills in communicating effectively with executives of small and medium sized businesses of the Bank Service Area. In addition to their own spheres of influence, they will be responsible for the direct delivery of bank products and services to all prospects and customers identified by all those engaged in the marketing of the **Bank of Saipan**. Other **Bank of Saipan** employees, by their interaction with **Bank of Saipan** customers, will be key participants in the **Bank of Saipan's** marketing activities.

The Directors will be active **Bank of Saipan** marketers and will maintain an active dialogue with all shareholders, keeping them fully advised of the **Bank of Saipan** programs, products, services, and initiatives to assist the shareholders in marketing the benefits to be

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derived by their friends and business colleagues in establishing a relationship with the **Bank of Saipan** and understand the need to support the **Bank of Saipan**.

Finally, it is well known that satisfied customers willingly and openly share their satisfaction with the services provided by a financial institution by positively communicating to friends and business acquaintances with whom they regularly interact.

Person-to-person initiatives represent the foundation of the **Bank of Saipan's** marketing strategy. Supporting these efforts, the marketing program will embody additional activities designed to heighten the public awareness of the **Bank of Saipan** and acquaint the marketplace with products and services offered by the institution. Examples include:

- Product Brochures - various brochures outlining the **Bank of Saipan's** products, services and competitive factors aid in identifying and marketing to qualified prospects, etc. These brochures will assist Directors, Shareholders, Management and staff members in understanding and marketing the services of the institution.
- Periodic letters to shareholders, customers, and business prospects focusing on specific products and services, the institution's capabilities, and its operating performance.
- Newspaper articles highlighting specific the **Bank of Saipan** services and capabilities. Involvement in civic activities and public relations will provide additional publicity for the **Bank of Saipan**.
- Seminar Programs will be conducted dealing with financial topics of certain interest to business owners in the Bank Service Area.
- Community Events – presence and sponsorship at CNMI community events, activities and social functions.

From this foundation and marketing effort, the **Bank of Saipan** can fulfill its Business Plan and pro forma projections.

O. Business Focus

As a means of maintaining its business focus and expertise, Bank of Saipan will be principally engaged in the following market segments:

1. Small to Middle Market Commercial:

Consists of business lending and cash management type operational services to manufacturers, wholesalers, distributors, commercial trades, tourist related business and service companies. This type of customer will generally have revenues of \$50,000.00 to \$1 million with deposits in the low to medium six figure range, divided equally between demand and interest bearing accounts. The average loan size is below \$150,000.00. This segment offers high relationship value to the **Bank of Saipan** with

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significant business and personal accounts that will provide compensating deposit balances.

2. Professional:

Composed of law firms, public accounting firms, medical professionals and other professional services providers. Loans in this segment include lines of credit to the businesses and loans to individuals. Deposits types are demand and interest bearing in the high five figure to low six-figure range. This segment offers business and individual relationships to the **Bank of Saipan** and opportunities to deliver fee-based products, although it is highly competitive. Additionally, this segment provides a strong source of business development referrals.

3. Consumer Loans:

To service the CNMI community and in order to retain an entire banking relationship, as a convenience to the professionals and principals of business customers of the **Bank of Saipan**, consumer loans will be offered consisting primarily of auto financing and home equity lines of credit. Characterized by high-yielding customer loan relationships, this segment provides good quality earning assets and the opportunity to create substantial fee income. Also as a convenience, credit cards may be offered to these customers although the function will be private-label and outsourced.

4. Construction Loans:

This highly specialized type of lending will only be available to well qualified and credit worthy clients. It will not be the primary lending orientation of the Bank. Short term commercial construction loans will include construction financing for owner occupied business or professional concerns, selected multi-family and commercial income properties, and tract and lot development loans. These loans, although often transaction based, create distinct opportunities to expand the customer/borrower relationship, to generate substantial fee income and, of course when properly underwritten, provide good quality earning assets.

In addition, short-term construction loans for owner-occupied custom residences will be offered for the principals of existing business relationships, in order to provide a complete financial service relationship, and also to non-depository customers to create opportunities to develop broader banking relationships. Characterized by relatively high-yielding loan relationships this segment also provides good quality earning assets and the opportunity to create substantial fee income. Take out financing will be arranged through fee-opportunity referrals to mortgage lenders with whom the **Bank of Saipan** will establish alliances. Inspections and

disbursements will be outsourced.

5. **Commercial Real Estate:**

Longer term commercial real estate loans [normally not to exceed 5 years] will generally consist of loans which are secured by various types of properties, will serve as a mini perm loan product and be used to acquire, refinance or take-out an existing **Bank of Saipan** construction loan. Commercial real estate loans will not be a primary lending orientation for the Bank. These customers will generally be commercial relationship customers from within the small- to medium-sized business market, i.e., owner occupied businesses, providing relationship building, secured loan transactions and core earning assets for the Bank.

6. **Small Business Administration Guaranteed Loans:**

Comprised of relatively high-yielding non-depository loan relationships in the real estate segment, 7(a) program loans with an active secondary market and 504 program loans will be provided. This segment provides good quality earning assets, new deposit customers and the opportunity for significant income from the gain on sale of the loans. Additionally, this segment creates opportunities to develop broader banking relationships with the customers.

P. **Product and Service Delivery Capabilities**

Capability for delivering bank products and services to the businesses of the Bank Service Area requires the assembly of resources which include personnel, physical plant and equipment capacity, effective correspondent banking, strategic alliances and vending relationships.

The acquisition of banking professionals is a key element to the success of the **Bank of Saipan**. All personnel hired by the **Bank of Saipan** will have demonstrated skills and experience consistent with the job responsibilities they will have in the **Bank of Saipan**. Because the **Bank of Saipan** will emphasize resolution banking, personnel, wherever necessary, will possess proven capabilities for interfacing with the **Bank of Saipan** customers and prospects. Customer relationships will be serviced ongoing by the **Bank of Saipan** team. Further, individual flexibility and adaptability is essential to ensure that each staff position is covered by more than one individual.

As previously stated, the **Bank of Saipan** will focus on the Bank Service Area and must have the facilities to cover this territory. At the present time, the Shareholder Group believes two facilities on Saipan, as well as the existing facilities on Tinian and Rota, are appropriate for the **Bank of Saipan's** bank plan. The Head Office facility in Saipan will meet the general business needs of this area. A courier service will assist in serving this large geographic area and an aggressive calling program, supplemented with promotional activities will publicize the **Bank of Saipan** to businesses and professionals.

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The **Bank of Saipan's** equipment will include a sufficiently automated customer inquiry system to enhance the "immediate response" marketing strategy for all Bank personnel. This will not only maximize the efficiency of all personnel but also represent a significant advantage in the administration of client relationships and the sale of Bank products such as account reconciliation, linked accounts and account transfer services.

The utilization of outside vendors who possess state of the art computer services and data processing is currently being researched in order to provide total customer processing thereby facilitating flexibility and control. Supporting the personnel and physical resources, the **Bank of Saipan** will access key services provided by both correspondent banks and commercial vendors. Additional services such as payroll service, automated billing, ATM networks, and other automated services will be implemented. The use of courier systems by independent banks has become increasingly prevalent in the last decade, has proven to be of great convenience to bank customers and a competitive edge over the larger banks.

Q. Deposit Products and Attendant Services

Deposit products offered by the **Bank of Saipan** will be responsive to the competitive environment which embodies not only the commercial banking industry but also thrifts, credit unions, insurance companies, securities firms, and many other providers of financial services operating in today's marketplace. In particular, the **Bank of Saipan's** deposit products will be responsive to the particular needs of the small to medium sized businesses.

The **Bank of Saipan** intends to provide a full array of deposit products; however, with the **Bank of Saipan's** focus on business banking, the strategy of management in building the deposit base is quality not quantity. In considering deposit products to be offered by the **Bank of Saipan** it is important to include other traditional banking services. Recognizing the emphasis to be placed on responding to the businesses of the Bank Service Area, the **Bank of Saipan** intends to provide services by appointment. Competitive, yet realistic fees will assist the **Bank of Saipan** in achieving its earnings goals.

Upon reopening, it is the Bank's intention to initially have a two tiered deposit system. Initially, existing depositors will be subject to the following deposit withdrawal restrictions: DDA 10% per month for 10 months; savings and time deposit accounts 5% per month for 20 months. There will be no restrictions on new deposits.

It is the intention of the Bank to periodically re-evaluate deposit restrictions and based upon liquidity the Board retains the right to selectively amend those restrictions as they relate to demand and savings accounts. If those restrictions are amended, it is intended that all depositors within the demand and/or savings categories would be treated equally.

R. Lending Activities

It has been emphasized that the principal focus of the **Bank of Saipan** will be that of meeting the business and personal financial service needs of consumers, business owners and professionals in

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the Bank Service Area. To that end, the **Bank of Saipan** will provide the full array of traditional commercial and consumer loan facilities for businesses including:

- Commercial and business loans including lines of credit and term loans - typically tied to the prime rate;
- Consumer loans including automobile and home improvement loans; and
- Accounts receivable/inventory financing.

The **Bank of Saipan's** loan policy will represent the foundation for all lending activities. The loan policy will be a guideline to all lending personnel in developing and administering what is surely to be the largest and most profitable segment of the **Bank of Saipan's** asset base. The loan policy will address such issues as:

- Bank of Saipan's general lending philosophy;
- Objectives to be achieved through adherence to the policy;
- Compliance with laws and regulations;
- Loans to insiders;
- Designation of a **Bank of Saipan** executive responsible for administering the loan policy;
- Establish lending limits and define the loan approval process;
- Set basic underwriting criteria (e.g. loan purpose, sources of repayment, credit information, etc.);
- Provide parameters for loan maturities and pricing strategies;
- Address policies relative to concentrations and loan mixes;
- Establish a loan review program;
- Outline problem loan identification and administration procedures; and
- Set procedures for evaluation of the **Bank of Saipan's** loan loss reserve, and sale of OREO.

The marketing programs of the **Bank of Saipan** will generate numerous and ongoing opportunities to underwrite and fund loans. It shall be the practice of the lending staff to perform a thorough analysis of each request for credit. This "due diligence" process will include evaluation of potential bank deposit accounts, the review of past and current financial performance, analysis of financial projections, direct (on site) investigation and independent checks with creditors and customers of the proposed borrower, in addition to broader issues such as credit purpose; vulnerability of the business and its industry to economic cycles; vulnerability to rapid technological change; management experience, depth, succession and breadth; risk management; competitive structure and stability of the industry; diversity, quality and demographics of its customer base; manager/owner lifestyle and the like.

Management envisions the delegation of loan authority to include a board-level loan committee for the approval and review of credit activities, a strict review process for those credit activities not necessitating board-level action, and individual loan authority of a restricted nature.

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The **Bank of Saipan's** written loan policy will address the issue of an ongoing loan review program. Bank of Saipan's commercial loan portfolio will be reviewed not only by the board-level loan committee but also as a part of the activities of the **Bank of Saipan's** outside auditors, as well as the periodic examinations conducted by regulatory authorities.

The credit requirements of the **Bank of Saipan's** targeted marketplace may occasionally involve funding levels which exceed the **Bank of Saipan's** legal lending limits. Relationships will be built with other banks in the United States and abroad who traditionally have participated with other banks in their overline circumstances.

S. Present Situation

The **Bank of Saipan**, although presently in its reorganization stage, intends to be in the business of serving the specialized needs of business owners and professionals. The **Bank of Saipan's** key strengths will be exceptional customer service, an experienced management team and strong commitment to the local community.

The Board of Directors possesses the desire and energy to build a financial institution that will meet the challenges of the local banking industry and financial services markets. Additionally, these individuals have a commitment to supporting a team of professionals who will navigate, build, and sustain a successful financial organization. The investment, both in time and in money, will be substantial.

The Board of Directors will be composed of individuals who can to provide a broad base for an understanding of the local community, area business needs, to evaluate local economic trends, and contribute to marketing efforts.

In meeting its overall commitment to the **Bank of Saipan's** shareholders, depositors, and community, the Board is expected:

- to ensure the employment of competent management;
- to ensure that appropriate plans and policies are in place;
- to monitor operations, ensuring adequate internal controls and compliance with applicable laws and regulations;
- to oversee business performance; and
- to ensure that the **Bank of Saipan** serves the bank deposit and credit needs of its community.

T. Board of Directors, Management and Advisory Committee

Upon Court approval of the Plan, the Board of Directors, subject to the oversight and direction of the Receiver, shall act to achieve successful implementation of the Plan. The Shareholder Group shall reconstitute the composition of the Board to include three (3) independent directors all of whom shall be CNMI residents, and one a representative of a depositor group.

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The **Bank of Saipan's** management team will be augmented by experienced banking professionals. The Board, with the approval of the Receiver, has retained Mr. Thomas Michels, former Western Pacific country manager for the Bank of Hawaii, on behalf of the Bank to take primary operational responsibility for implementation of the Plan. Mr. Michels is engaged for six (6) months commencing on February 1, 2003. The Bank anticipates employing approximately the same number of individuals as are currently employed, and expanding as financial and business considerations warrant. These positions will include:

- President and Chief Executive Officer.
- Executive Vice President and Chief Credit Officer
- Senior Vice President and Chief Financial Officer/or Vice President and Cashier
- Credit Analyst
- Loan Servicing Manager
- Operations Manager
- Systems/Technical Officer
- Loan and Account Relationship Officers
- Administrative Assistants
- Customer Service Representative/Tellers
- Courier
- Accounting Clerk

The Receiver will have oversight authority over the Bank's operations, including the authority to veto loans approved by the Bank's loan committee and the Board of Directors. The Receiver shall receive notice of and may attend all Board meetings.

U. Products

The **Bank of Saipan** will focus primarily on the specialized financial service needs of business owners and not attempt to offer all services to all people. Therefore the proposed **Bank of Saipan** services will include:

1. Deposit Services

- Personal and Business Checking Accounts
- Money Market Accounts
- Savings Accounts
- Certificates of Deposit
- IRA & SEP IRA Account

2. Other Services

- Wire Transfers/Funds Transfers
- Business Payroll Services

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- Direct Deposit Payroll
- Night Depository
- Courier Service (non-cash deposits)
- Check Guarantee/ATM Cards
- Safe Deposit Boxes

3. Commercial/Real Estate Loans

- Accounts Receivable/Inventory
- Construction
- Business Start up or Acquisition
- Commercial Real Estate Purchase
- Equipment Financing
- Income Property Financing
- Letters of Credit – standby and trade
- Renovation or Expansion
- SBA Loans (7-A and 504)
- Working Capital Loans

4. Consumer Loans

- Automobile Financing
- Deposit Secured Loans
- Home Equity/Improvement Loans
- Overdraft Protection Lines
- Personal Loans
- Residential Construction
- Residential Mortgages (some or all of which may be offered for sale)
- Stock Secured Loans

V. Pricing and Profitability

It is anticipated that the **Bank of Saipan** will begin to show a profit within 18 months of commencement of operations and, based upon an achievable growth rate to approximately \$30 million to \$35 million in deposits within the first 24 months and the building of a minimum net interest spread in excess of 5.0%.

Pricing will be market driven and competitive with not only other independent banks and major banks, but with the savings and loans, credit unions and nontraditional financial providers such as insurance companies and securities firms to the extent possible. The **Bank of Saipan** will not be the bank for everyone but it will be the right financial partner for the consumer business owner that wants an in-depth, long term relationship and direct access to the highest level of management.

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Pretax profits are anticipated to approach a Return on Equity to shareholders of not less than 15%, before tax allocation, within 5 years.

W. Customers

The **Bank of Saipan**'s customer base will be predominantly consumers, small to medium sized businesses and business owners, professionals or entrepreneurs. Since the **Bank of Saipan** will focus on consumers, professionals and the small to medium-sized business customer, it is not likely to draw significant large corporate customers.

X. Distribution

The **Bank of Saipan** will be headquartered in Saipan, serving the Bank Service Area. With a strategic geographic location and a business banking focus, the **Bank of Saipan** does not anticipate establishing other full service banking offices in the immediate future.

The focus will be on delivery of products and services to the Bank Service Area through the least costly vehicle, such as electronic banking. If it should be determined at some point in the future that additional facilities are required to properly meet and service the needs of the Bank Service Area, a proper cost and profitability analysis will be conducted. If feasible, additional full service branches may be opened.

Y. Financial Status

See Financial Data Section

Z. Capital Plan

Upon approval of the Plan the **Bank of Saipan** will be re-capitalized through a private offering of an additional \$2 million of common stock. The stock offering shall be offered to all existing shareholders on a prorated basis. In addition to their respective prorata share of the stock offering, the Calvo family shareholders and the JLH Pacific Trust shall acquire, on a prorata basis between themselves, any unpurchased shares of the \$2 million offering. Additional capital is expected to possibly come from the conversion of deposits into capital. Further, in addition to an initial capital infusion, the Calvo family and the JLH Pacific Trust have indicated that they are willing on a prorata basis to infuse an additional \$1 million in capital, if required. The value per share to be issued for the subject capital infusion shall be the share book value, as determined by an independent accounting firm and approved by the Receiver and the Board of Directors.

While always of critical importance, capital management and planning has distinct implications for the **Bank of Saipan** because of the Bank's recent closure, the Receivership and the need to re-establish depositor and public confidence.

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The overall recapitalization objective for the Bank of Saipan is to sufficiently recapitalize the Bank of Saipan so that it conforms to banking industry standards. In determining strategies to *recapitalize the Bank of Saipan*, special implications related to the **Bank of Saipan** require sophisticated vigilance in capital management and planning, especially with respect to the interrelated issues of:

- Quantitative capital adequacy ratios;
- Qualitative factors affecting capital adequacy;
- Liquidity;
- Loan loss reserves;
- Off-balance sheet risk; and
- Shareholder distribution policy.

In crafting the **Bank of Saipan's** capital plan, the Shareholder Group has worked closely with the Receiver and others. Collectively, they have examined various profit and loss, asset-liability, loan-deposit and liquidity related scenarios and the related impact upon capital adequacy.

The **Bank of Saipan's** capital strategy, as reflected in the accompanying financial projections, is oriented towards stabilization. Significant growth is not anticipated. A minimal growth strategy is sound due to the current status of the CNMI's economy and the efforts required to reestablish the Bank's credibility. Quality relationships are anticipated to be developed because of contacts which are known to the Bank's directors and its officers, as well as the curtailment of banking activities by other financial institutions in the Bank Service Area.

It is further anticipated that the Bank's capital and liquidity will be increased by payments from insurance claims filed by the Bank because of prior management misconduct and the anticipated repayment of loans, such as Sweven, where alternative sources of repayment have been identified. In connection therewith, although a reserve of \$5 million has been recommended to be established for Sweven, it appears likely that a recovery will be obtained by insurance claims.

AA. Management Team

A new professional, well-qualified and experienced management team consisting of a Chief Lending Officer and Chief Financial Officer are needed, to work with the Receiver.

Evaluating current employees and recruiting additional employees falls within the scope of Mr. Michel's duties as consultant to the Bank. All new senior Bank personnel will be rigorously evaluated. It is also recommended that the Chief Lending and Financial Officer have small bank experience. The operation of a small regional, independent bank is considerably different than the operation of a large money center bank such as Bank of America, Wells Fargo, Citibank, etc. The new bank officers must have strong administrative, credit and bank operational skills. The new bank team must also be community oriented and capable of attracting and maintaining good customers.

1. Employees

The Bank currently employs approximately 33 persons on a full-time equivalency basis. None of its employees are represented by a trade union or a collective bargaining agreement. A comprehensive evaluation of all personnel and employment requirements is being conducted.

There are no unfunded pension liabilities.

2. Counsel

Historically, the Bank has not maintained in-house counsel as a matter of policy. However, consideration is being given to hiring an in-house general counsel who will focus on loan collection issues and regulatory interface as a cost-saving measure.

3. Independent Accountants

A well-experienced, independent, non-conflicted certified public accountant should be retained. Fees and the scope of the engagement should be well defined.

4. Independent Outside Loan Consultant

A well qualified, insured, independent outside loan consultant should be retained to regularly review the quality of the Bank's loan portfolio, no less than quarterly.

BB. Financial Overview

The following tables set forth certain unaudited consolidated financial data of the Bank as of November 30, 2002:

Financial Condition Data:	At <u>11/30/02</u> (millions)
Total Assets	\$43
Total Deposits	\$37
Total Capital	\$ 2
Cash and Investments	\$11
Total Loans	\$33
Loan loss allowance	\$ 6
Allowance for credit losses to total loans	18%

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Although as of November 1, 2002 delinquent loans totaling approximately \$17 million were 90+ days delinquent, that number is significantly misleading. This is because upon further analysis, it appears as though a significant portion of the Bank's past due loans can be attributed to payment confusion created by the original Receiver's actions which included minimal loan collection and loan documentation correction efforts. Consequently, the magnitude of the problem loans does not appear to be nearly as bad as what the delinquency numbers indicate.

Included in the \$17 million in 90+ days delinquent loans are approximately \$7.2 million in loans which have substantial collateral and that are also guaranteed the CDA's guaranty. The CDA has \$1.2 million on deposit with the **Bank of Saipan**:

The largest of the aforementioned CDA secured loans is secured by real property with a reported value of \$15 million. The Receiver with the concurrence of the CDA, is currently in the process of negotiating a revised loan repayment program with that customer that is designed to provide direct loan payments to the Bank of Saipan. Based on estimated collateral values and the CDA's existing deposits, it is anticipated that the CDA guaranteed loans should not result in any losses or charge-offs.

The remaining balance is approximately \$10 million [\$17 million less \$7 million]. Many of those loans have had substantial payments made on them recently. While those loans are categorized as being 90+ days past due, there are substantial payments currently being made on a regular basis. It is anticipated that "extension-modification" program that has been initiated by the Receiver for those loans will result in most of those loans being implementation of the returned to "good performer" status. Therefore, those borrowers who had positive payment records prior to the establishment of the Receivership are being allowed to reestablish their loan relationship without penalty with the **Bank of Saipan** by simply extending loan maturities, waiving any late charges, default interest or other related fees.

It appears that \$6.7 million in 90+ day delinquent loans represent the "true" delinquent loans. No payments have been made on those loans since the inception of the Receivership. Included in that amount are two loans totaling \$5.1 million to Sweven for which there appears to be several alternative sources of payment to mitigate any potential losses.

Conservatively, for the purpose of this Business Plan, it has been assumed that approximately \$10 million represents a reasonable and conservative estimate of potential loan problems. Therefore, the Bank's November 30, 2002 loan loss reserve of \$6.5 million should be increased by an additional \$3.5 million to \$10 million in order to compensate for that weakness.

The **Bank of Saipan's** capital will be adjusted to accommodate the aforementioned \$3.5 million increase in loan loss reserves. For the purpose of this Report and subject to more detailed analysis, loan write-offs are estimated to approximate \$6.5 million, \$5.0 million of which is for Sweven. As a result, approximately \$3.5 million in additional loan loss reserves and \$0.5 million in miscellaneous other asset write-downs will reduce the Bank's capital. This results in a deficit in the Bank's capital account balance of approximately \$2.0 million.

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Therefore, concurrent with the reorganization of the Bank an additional \$2 million in capital should be infused into the Bank in the form of new cash capital contributions from current Bank Directors and \$2 million from the conversion of a portion of the Bank's deposits into capital in order to fund growth, new business opportunities and to meet anticipated regulatory requirements. It is further anticipated that the reorganized Bank with new, market sensitive ownership and adequate capital resources should be able to achieve a return to profitability, if a new professional management team is retained and the reorganized Bank conforms to basic, conservative, traditional banking industry fundamentals.

Based upon the aforementioned proposed loan loss reserve increase and miscellaneous asset adjustments the following table set forth certain pro forma financial data of the proposed reorganized Bank as of November 30, 2002:

Pro forma Financial Condition Data	At 11/30/02 (millions)
Total Assets	\$36
Total Deposits	\$35
Total Capital	\$ 2
Cash and Investments	\$13
Total Loans	\$27
Loan loss allowance	\$ 3
Allowance for credit losses to total loans	11%

As a result of the aforementioned Shareholder Group's capital infusion the reorganized Bank's liquidity would be also increased \$2 million from \$11 million to \$13 million. Liquidity would represent approximately 35% of total deposits, which should provide ample liquidity for the reorganized Bank when coupled with loan repayments and/or sales as discussed in the Asset/Liability and Liquidity sections of this Plan.

CC. Reorganized Bank's Capitalization

The Bank's capital base has been adversely affected by a variety of factors which include unauthorized and fraudulent loans, CNMI economic problems, a large amount of non-performing loans, the prior receiver's apparent liquidation plan and related inactivity, and the cessation of normal banking operations associated with the current Receivership.

It is important for the reorganized Bank to have and be required to maintain prudent capital ratios. This can be accomplished through the infusion of new capital by the existing Shareholder Group in the form of new cash and the conversion of some of the Bank's deposits into capital.

For political, strategic and corporate goodwill reasons, the conversion of some CDA, MPLA, NMIRF deposits into capital are important to re-establish public confidence. The following table set forth certain pro forma financial data for the proposed reorganized Bank as of November 30, 2002:

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Pro forma Capitalization as of November 30, 2002
(in millions)

Capital per financial statements	\$ 2.0
Adjustments:	
Additions:	
Existing Bank Shareholder Group	\$ 2.0
Deposit Conversions	\$ 2.0
Reductions:	
Increased Loan Loss Reserves	\$ 3.5
Asset Write-offs	\$ 0.5
Adjusted Capital	\$ 2.0

DD. Possible Capital Participation - Depositors

The conversion of some deposits to capital, although not included in the aforementioned pro forma capitalization, would further improve the reorganized Bank's capital. The benefit to depositors would be the conversion of their deposits to an investment with preferred returns.

As part of any CDA, MPLA, NMIRF deposit capital conversion (the "Converted Capital"), the Converted Capital shall be classified differently than the capital contributed by the Bank's existing shareholders. The exact structure of the Converted Capital (subordinated capital notes, preferred stock, Class A, etc.) is subject to further analysis. However, conceptually, certain designated loan collections could be used to establish a sinking fund that would be earmarked to retire the capital notes and also to provide a mechanism to pay dividends on the preferred stock. The objective would be to use the proceeds from such loan collections to repay, at least partially, the Converted Capital deposits.

As part of the capital plan the Bank shall offer preferred stock (referred to herein as "Preferred Shares") to certain of its depositors who agree to convert their deposits to Preferred Shares, in accordance with this Plan. A total value of up to Three Million Dollars (\$3,000,000.00) in Preferred Shares shall be authorized.

1. Eligibility and Exercise:

All current Bank of Saipan non-government depositors are eligible to participate in a program to purchase Preferred Shares.

a. Non-government depositors will be offered Preferred Shares equal to the amounts of their current deposits. Depositors may elect to purchase less than the total amount of Preferred Shares that they are eligible to purchase.